MAHER SHOES LIMITED

ANNUAL REPORT

December 31st, 1972

MAHER SHOES LIMITED

Annual Report for the year ended December 31, 1972

DIRECTORS

LANE R. CHESTER

FRANK R. HARVEY

EARL H. ORSER

JAMES R. SOUTH

GEORGE F. TRAVELLE

DONALD G. WILLMOT

THOMAS P. WILSON

OFFICERS AND MANAGEMENT

LANE R. CHESTER, Chairman of the Board

THOMAS P. WILSON, President

FRANK R. HARVEY, Vice-President, Finance and Treasurer

LORNE D. PHILLIPS, Vice-President, Maher Division

DONALD E. ROSS, Vice-President, Merchandising

ROBERT C. WILSON, Vice-President, Bonita Division

GEORGE F. TRAVELLE, Secretary

COPP THE SHOE MAN LIMITED

J. WEMYSS REID, President

AUDITORS

CLARKSON, GORDON & CO., TORONTO, CANADA

HEAD OFFICE

144 FRONT STREET WEST, TORONTO 1, CANADA

TRANSFER AGENT AND REGISTRAR

THE CANADA TRUST COMPANY, TORONTO, CANADA

HIGHLIGHTS

	YEARS ENDED DECEMBER 31, 1972	1971 (unaudited)	YEARS ENDED JANUARY 31, 1971	1970	1969
Earnings from Operations per Common Share	3.48	2.71	2.37	2.55	2.43
Cash Flow per Common Share	5.37	4.35	3.74	3.78	3.41
Earnings from Operations	826,000	664,000	571,000	604,000	580,000
Dividends Paid per Preference Share	.60	.60	.60	.60	.60
per Common Share	.74	.72	.70	.62	.54
Earnings from Operations Return on Average Shareholders' Equity	20.4%	20.2%	20.0%	24.3%	26.4%
Federal and Provincial Income Taxes	800,000	658,000	584,000	632,000	688,000
Depreciation and Amortization	356,000	313,000	262,000	232,000	186,000
Working Capital Ratio	2.1:1	1.7:1	1.9:1	2.1:1	2.2:1
Earnings from Operations Return on Sales	4.0%	3.8%	3.5%	4.0%	4.2%

REPORT OF THE BOARD OF DIRECTORS TO THE SHAREHOLDERS

FINANCIAL

We are pleased to report record sales and earnings for the year ended December 31, 1972. In order that annual comparisons may be made of operating trends and other financial data, reference is drawn below to the unaudited results for the twelve month period ended December 31, 1971.

Sales increased $3,206,000 or 18.5% to $20,573,000 in 1972 from $17,367,000 for the twelve month period ended December 31, 1971. Earnings from operations amounted to $826,000, an increase of $162,000 or 24.4% over the preceding twelve months earnings of $664,000. This represents earnings from operations of $3.48 per common share compared with $2.71 for the similar twelve month period ended December 31, 1971. The number of issued and outstanding common shares was unchanged in both years.

In addition to earnings from operations, the company experienced a net gain of $509,000 on the sale and revaluation of properties as set out in Note 2 to the consolidated financial statements. This represents a net extraordinary gain of $2.42 per common share. No extraordinary gains or losses were realized in the preceding twelve month period.

EXPANSION AND MARKETING

The investment in new store locations and the refurbishing of existing units amounted to approximately $700,000. It is planned that this record level of activity will continue throughout 1973 and beyond. Proposed capital expenditures for 1973 will be financed through a combination of internal cash flow and disposal of company-owned retail properties.

Twenty retail locations were opened during the year, the majority of which were specialty units. In keeping with corporate policy of phasing out smaller uneconomical units and those retailing locations which do not meet management's marketing criteria, fifteen ~~locations~~ were closed ~~in 1972~~. Plans for an aggressive expansion in 1973 are well advanced which include opening of several multiple units in community and regional malls throughout Canada. Multiple specialty merchandising represents a new area of growth and it is the company's intention to participate in the development of this expanding market.

The Maher and Copp stores are the foundation of our operations. During 1972, the upgrading of product lines and store decor resulted in the further development of these important divisions. The company has recently ~~entered~~ into a unique concept ~~of specialty~~ marketing which is characterized by the promotional selling of family footwear through self-serve shoe marts. ~~These units~~, known as Pic-Wic Shoe Marts, are still in the corporate development stage. It would appear that this concept of retailing appeals to a definite segment of the buying public.

Retailing today is a dynamic, aggressive service industry, requiring a sophisticated approach heretofore unknown. Refinement in the concept of specialty shoe marketing has contributed to the significant growth of all corporate divisions.

Personnel

The company recognizes the need to enhance and upgrade the development of highly trained personnel within its industry. Personnel responsibility, which previously had been segmented on a divisional basis, was centralized into one head office administrative function to facilitate the achievement of future corporate goals.

Further, the company introduced a formal personnel training and evaluation program in merchandising, store operations and store management. Remuneration incentives and store manager and staff salary policies were revamped and made to relate closely to the company's marketing and personnel development objectives. As the company continues its program of planned expansion, it is expected that its formal corporate training program will make available an increased number of personnel for promotion to senior positions within the company.

Appreciation

The directors wish to thank all the members of the staff for their continued dedication and support. This, when coupled with strong consumer acceptance of our merchandise, has contributed significantly to the improved performance of the company during the past year. We believe that with the continuance of the underlying buoyant economy, 1973 will be another good year for the company.

C. R. Chester
CHAIRMAN

Thomas P. Wilson
PRESIDENT

Toronto, Canada April 17, 1973.

AUDITORS' REPORT

To the Shareholders of

MAHER SHOES LIMITED:

We have examined the consolidated balance sheet of Maher Shoes Limited and its wholly-owned subsidiary as at December 31, 1972 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period, after giving retroactive effect to the change in accounting practice described in note 1 to the consolidated financial statements, with which change we concur.

Toronto, Canada,

February 16, 1973.

CLARKSON, GORDON & CO.,

Chartered Accountants

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CONSOLIDATED

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ASSETS

	1972	1971
Current:		
Cash and short-term investments (note 3)	$ 376,000	$ 101,000
Accounts receivable	332,000	294,000
Inventories, at the lower of cost or net realizable value	4,598,000	3,701,000
Prepaid expenses and other assets	100,000	95,000
Total current assets	5,406,000	4,191,000
Mortgages receivable, maturing in 1975 and 1980	300,000	51,000
Fixed (note 2):		
Buildings	116,000	809,000
Fixtures, equipment and leasehold improvements	3,737,000	3,285,000
	3,853,000	4,094,000
Less accumulated depreciation and amortization	1,531,000	1,440,000
	2,322,000	2,654,000
Land	38,000	1,052,000
Land and buildings in process of disposition	572,000	
Total fixed assets	2,932,000	3,706,000
	$8,638,000	$7,948,000

On behalf of the Board:

Lane R. Chester, Director

Thomas P. Wilson, Director

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ed subsidiary

LANCE SHEET

31, 1972

LIABILITIES

	1972	1971
Current:		
Bank indebtedness	$1,121,000	$1,014,000
Accounts payable and accrued charges	962,000	907,000
Income and other taxes payable	368,000	476,000
Dividends payable	65,000	61,000
Total current liabilities	2,516,000	2,458,000
Long-term:		
6¼ % sinking fund debentures Series A maturing April 1, 1987 (note 3)	1,418,000	1,425,000
8½ % mortgage payable		475,000
Total long-term liabilities	1,418,000	1,900,000
Deferred Income Taxes	113,000	92,000
Shareholders' Equity:		
Capital –		
Authorized:		
156,675 60¢ cumulative, non-redeemable preference shares without par value		
400,000 common shares without par value		
Issued:		
156,666 preference shares	1,413,000	1,413,000
209,900 common shares (note 4)	1,060,000	1,053,000
	2,473,000	2,466,000
Retained earnings	2,118,000	1,032,000
Total shareholders' equity	4,591,000	3,498,000
	$8,638,000	$7,948,000

ying notes

MAHER SHOES LIMITED

and its wholly-owned subsidiary

CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1972

	Year ended December 31, 1972	Year ended December 31, 1971 (unaudited)	Eleven months ended December 31, 1971
Sales	$20,573,000	$17,367,000	$16,697,000
Costs and expenses:			
Cost of sales and operating expenses	18,348,000	15,525,000	14,796,000
Depreciation and amortization	356,000	313,000	291,000
Debenture interest and expense	102,000	82,000	79,000
Other interest (net)	141,000	125,000	119,000
	18,947,000	16,045,000	15,285,000
Earnings before income taxes	1,626,000	1,322,000	1,412,000
Income taxes	800,000	658,000	708,000
Earnings from operations	826,000	$ 664,000	704,000
Extraordinary item – net gain on sale and revaluation of properties (note 2)	509,000		
Earnings including extraordinary item	$ 1,335,000		$ 704,000
Earnings per share:			
Earnings from operations	$3.48	$2.71	$2.94
Extraordinary item	2.42		
Earnings including extraordinary item	$5.90	$2.71	$2.94

See accompanying notes

MAHER SHOES LIMITED

and its wholly-owned subsidiary

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1972

	Year ended December 31, 1972	Eleven months ended December 31, 1971
Retained earnings, beginning of period:		
As previously reported	$2,205,000	$1,746,000
Adjustment to reflect retroactive change in accounting practice (note 1)	1,173,000	1,173,000
As restated	1,032,000	573,000
Earnings including extraordinary item	1,335,000	704,000
	2,367,000	1,277,000
Less dividends:		
Preference shares – 60¢ per share	94,000	94,000
Common shares – 74¢ per share (72¢ per share in 1971)	155,000	151,000
	249,000	245,000
Retained earnings, end of period	$2,118,000	$1,032,000

See accompanying notes

MAHER SHOES LIMITED

and its wholly-owned subsidiary

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1972

	Year ended December 31, 1972	Eleven months ended December 31, 1971
Funds provided:		
Earnings from operations	$ 826,000	$ 704,000
Add charges not representing use of funds –		
Depreciation and amortization	356,000	291,000
Deferred income taxes	21,000	22,000
Loss on disposal of fixed assets	18,000	9,000
Total funds from operations	1,221,000	1,026,000
Net proceeds on sale of company properties (after mortgage repayment of $475,000 in 1972)	1,125,000	180,000
Common share subscriptions (note 4)	7,000	
	2,353,000	1,206,000
Funds applied:		
Fixtures, equipment and leasehold improvements	691,000	527,000
Dividends	249,000	245,000
Mortgages receivable	249,000	
Current portion of debenture debt	7,000	
Additions to company properties less mortgage assumed of $475,000		272,000
Debentures purchased for redemption		100,000
	1,196,000	1,144,000
Increase in working capital	1,157,000	62,000
Working capital, beginning of period	1,733,000	1,671,000
Working capital, end of period	$2,890,000	$1,733,000

MAHER SHOES LIMITED

and its wholly-owned subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1972

1. BASIS OF CONSOLIDATION AND RETROACTIVE CHANGE IN ACCOUNTING PRACTICE

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary, Copp The Shoe Man Limited.

The consolidated financial statements reflect a retroactive write-off at date of acquisition of the "excess of cost of investment in a predecessor company over the values assigned to tangible assets on acquisition", consistent with the treatment in a prior year of the write-off of the excess cost on the acquisition of Copp the Shoe Man Limited. This change in accounting practice has no effect on reported earnings of the current or prior years.

2. FIXED ASSETS AND EXTRAORDINARY ITEM

Prior to December 31, 1972, the company's land and buildings were valued at depreciated replacement value, as determined by an appraisal in 1965, with subsequent additions at cost. Up to and including 1972, depreciation charges have been based on appraisal values where applicable.

Pursuant to its previously reported disposal program, the company sold its head office and certain other properties in 1972 for a net gain of $754,000 and expects to dispose of substantially all of the remaining properties during 1973. The carrying value of the properties remaining to be disposed of has been written down by $245,000 to the estimated realizable value at December 31, 1972; all other fixed assets are carried at cost. The resulting net gain of $509,000 on sale and revaluation of properties is shown in the consolidated statement of earnings as an extraordinary item.

3. SINKING FUND DEBENTURES

The debentures are secured by a first floating charge on the assets of the company. In order to comply with certain covenants of the Trust Deed, short-term investments of $190,000 have been lodged with the Trustee.

As at December 31, 1972, the company has a sinking fund credit substantially sufficient to meet the $64,000 payment due in 1973. Payments required in 1974 and future years average approximately $98,000 per annum to 1987, the date of maturity.

4. Share Capital

In 1970, 9,900 common shares were issued to officers and employees of the company for an aggregate subscription price of $198,000. During 1972 $7,000 was received by the company pursuant to a directors' call on a part of the subscription price. At December 31, 1972, $171,000 remained outstanding and is not due until called which may be done within eight years in amounts not exceeding $40,000 per annum.

5. Lease Obligations

At December 31, 1972 the companies had lease commitments expiring between 1973 and 1991 which provide for minimum average rentals of approximately $1,000,000 annually over the next five years exclusive of taxes, percentage rentals and other related occupancy costs.

6. Remuneration of Directors and Senior Officers

Remuneration of directors and senior officers amounted to $211,000 in 1972 ($214,000 in 1971).

7. Unfunded Pension Liability

As at December 31, 1972, the actuarially computed present value of the company's obligations for unfunded past service costs to the Maher Pension Plan approximated $586,000 (after deducting $47,000 charged to operations in 1972). The company proposes to fund this amount in equal annual instalments of approximately $47,000 over the next seventeen years and to absorb these costs against operations as these payments are made.

8. Comparative Figures

For comparative purposes certain of the 1971 figures have been reclassified to conform with the 1972 presentation.

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MAHER SHOES LIMITED

preliminary report to the shareholders

FOR THE YEAR ENDED DECEMBER 31, 1972

MAHER SHOES LIMITED

and its wholly-owned subsidiary

preliminary report to the shareholders

New records in sales and earnings were established by Maher for the year ended December 31, 1972.

Sales in 1972 increased by $3,206,000 or 18.5% to reach a total of $20,573,000.

Earnings from operations for the year ended December 31, 1972 advanced to $826,000 from $664,000 for the twelve months ended December 31, 1971, representing an annual increase of $162,000 or 24.4%. On a per common share basis the earnings from operations for 1972 of $3.48 compare with $2.71 for the 1971 calendar year.

In addition to earnings from operations in 1972, the company experienced an extraordinary net gain on the sale and revaluation of company properties in the amount of $509,000 or $2.42 per common share. No extraordinary gains or losses were experienced in 1971.

Audit of the results in this preliminary report is nearing completion. The annual report for 1972 incorporating financial statements and further details of the year's operations will be mailed to the shareholders in late March.

LANE R. CHESTER
Chairman

THOMAS P. WILSON
President

March 7, 1973
Toronto, Canada.